

FINANCIAL REPORTS

FINANCE COMMITTEE

Introduction to the Finance Committee

Every town in Massachusetts with a property valuation of over \$1 million is required by state law, MGL Ch. 19, Sect. 16, to have a Finance Committee that shall “consider any or all municipal questions for the purpose of making reports or recommendations to the town.” The Finance Committee’s primary responsibility is advisory and, in some towns, is referred to as the Advisory Committee. It examines the budget and all other warrant articles and makes recommendations to the voters on each article. It also administers the reserve fund to provide for urgent and unforeseen expenditures that might arise between town meetings. Further, the Finance Committee Annual Report should give the people of the town a clear picture of the town’s financial condition.

In Stow, the Moderator appoints five voting and up to five associate members to the Finance Committee. Any voter registered in Stow is eligible to join. As of February 13, 2013 there were five voting members and one associate member on the committee.

Overview of Town Finances and the Fiscal Year 2012 Budget

The Town balanced the budget for the fiscal year 2013, covering the period July 1, 2012 through June 30, 2013, (“FY13”) without an override. Though no overrides have been required in the past seven budgets, the Center School construction project (“Center School Project”) will increase expenditures by an estimated 5% to 6% by fiscal year 2014, depending on the prevailing interest rates when the final bonding occurs.

The Finance Committee remains concerned about some long-term trends and needs, as well as more recent cyclical conditions. New construction, which increases our tax base, has been flat, after a precipitous decline during the recession. Local receipt growth has been a bright spot over the last few years, after showing a significant decline during the recession. State aid, tied very closely to variable and cyclical state tax revenue, actually saw a very slight increase in FY13. Still, state aid (both municipal and educational aid) may take several years (if ever) to recover back to fiscal year 2009 levels. The long-term constraints on our finances remain unchanged from prior years. Stow has an undiversified tax base, forcing the town to rely heavily on residential taxation. Beyond that, Stow has large amounts of land exempted or abated from taxes and one of the lowest amounts of state aid per capita in Massachusetts.

The more immediate concern is the backlog of capital projects and the ability of the taxpayer to absorb the corresponding debt service. The backlog had no doubt built up behind the Center School Project. Though the interest rate environment is currently favorable for financing capital projects, Stow will not see a significant reduction from the debt service for another five to six years. Many Stow residents may see the need for these capital projects, but at the same time may not be able to absorb the possible increases to their property taxes.

Stow’s savings remain solid at just under 9% of the overall budget.

Stow continues to benefit from a 2009 bond rating upgrade which has contributed to favorable interest rates obtained for the ongoing Center School Project. Bond ratings, which function as the town's credit rating and are the fundamental basis of our borrowing costs, are determined based on a number of factors. These include the overall economy of the town and its residents, the ability of the town to balance budgets and control spending, the debt structure of the town, the balance of the town's reserve funds and the overall strength and performance of town management, among others. The factors that most likely played a predominant role in the 2009 upgrade were no doubt the town's ability to balance the budget over the previous years without an override, as well as the solid management of the town by the Town Administrator and various town departments. It cannot be emphasized enough how important the bond rating is to a town, as an upgrade has the potential to save the town millions of dollars in future debt service costs, especially during periods of economic uncertainty when there is a greater value placed on higher quality bonds. Fortunately, despite the additional debt burden of some of the Center School Project, Stow was able to maintain that credit rating at the most recent review. Though the rating may certainly be tested if we add the debt service associated with potential large capital projects or dip into our town savings, it was indicated recently by at least one of the rating agencies that the town remains well within a safe borrowing range.

The costs associated with the Center School Project began to be noticed by taxpayers in FY12, when we had about \$650,000 in Center related debt service. FY13 saw only about \$150,000 in additional Center debt service on top of the FY12 level. Overall costs of the Center School Project should be finalized this coming spring, at which time the final amount will be bonded. As such, FY14 is predicted to be the first full year of long-term debt service associated with the Center Project. Right now we are predicting about \$17 Million in overall costs to the town, with an annual debt service cost of about \$1.1 Million. The average taxpayer's share of this would be approximately \$375/year (for FY13, the average taxpayer is paying about \$275, which means an additional \$100 estimated to be added in FY14 for the average taxpayer).

Though Stow is in good fiscal shape, the Finance Committee remains concerned about capital needs within the town and the schools, and the taxpayer's ability to fund these needs. Despite the fact that the town is well within the current levy limits, the current capital needs may hamper the taxpayer's ability to absorb any significant operational cost increases.

Town Meetings

Stow held two town meetings in 2012, the Annual Town Meeting in May and a Special Town Meeting in November.

The Annual Town Meeting approved the annual budget (largely level services), various capital items totaling about \$400,000 and debt associated with a \$2.2 Million improvement to the Nashoba Regional High School athletic facilities (of which Stow will be paying about a 1/3).

The Special Town Meeting and election this past November largely centered around four large capital projects. These included funds for upgrading the Nashoba Regional High School Science Labs, along with design funds for a new fire station, design funds for a significant add/reno to the library and design funds for converting the Pompositticut School to a community center. The

science lab project was never put to a vote, as it was rejected in Lancaster and Bolton prior to the Stow Special Town Meeting. The design funds for the library were rejected by a slim margin at the special election, which preceded the Special Town Meeting and the design funds for the fire station and community center were rejected by slim margins at the Special Town Meeting (approval required a super majority).

Town Revenues

Town Revenue decreased 1.6% in FY13, after a significant increase FY12. Table 1 shows a comparison of revenue sources for FY12 and FY13. The largest source of town revenue, property taxes, accounted for the bulk of the decrease. The decrease in property taxes was balanced by increases in other revenue sources. After showing a large decrease in FY11, local receipts, which include the excise tax receipts, have rebounded in FY12 and FY13. State aid, not including state aid to the school districts, increased slightly. The increase in Savings and Other Funds represents a one-time recapture of reserves set aside for possible abatements. The "Other" line item pertains to pass-through related funds for Community Preservation Fund projects, which saw little activity in FY13. Regardless, as Community Preservation Projects are funded by pass-through funds, there is no direct effect on taxation for Community Preservation Projects.

As noted earlier, state aid to the town is nominal. In fact, approximately \$540,000 of the amount shown below is just pass-through debt service money associated with the Hale renovation from many years ago. In other words, when taking this reimbursement out, state aid to the town is only approximately \$380,000 for FY13.

Nevertheless, besides that state reimbursement for Hale and in spite of low amounts of state aid, the town has been active in pursuing grants over the last several years. These grants do not show up in the budget, nor do the expenses associated with these grants. Since 2008 Stow has received over \$19 million in grant funds. Though approximately \$17,400,000 of this was for the Center School Project, approximately \$1,600,000 has been received since 2008 for dozens of other uses, ranging from highway and road improvement, to fire equipment, to library books.

Table 1: Revenue Sources

	FY12	FY12 % of Total	FY13	FY13 % of Total	\$ Change FY12- FY13	% Change FY12-FY13
Property Tax	\$21,475,098	89.9%	\$20,861,552	88.8%	(\$613,546)	-2.9%
Local Receipts	\$1,247,245	5.2%	\$1,353,000	5.8%	\$105,755	8.5%
State Aid	\$896,287	3.8%	\$922,442	3.9%	\$26,155	2.9%
Savings and Other Funds	\$250,000	1.0%	\$357,000	1.5%	\$107,000	42.8%
Override	\$0	0.0%	\$0	0.0%	\$0	0.0%
Other (CPF)	\$8,343	0.0%	\$3,965	0.0%	(\$4,378)	-52.5%
Total	\$23,876,973	100.0%	\$23,497,959	100.0%	(\$379,014)	-1.6%

Source: Town Administrator, Budget Report, Annual Town Meeting

Town Expenditures

Total Stow expenditures increased 2.7% in FY13 after a 5.1% increase in FY12. These expenditures can be divided into three large groups: Education, which increased 2.9% (not

including debt service on Hale or Center), Municipal Government, which increased 3.0% and Other/special items, which increased 1.1%. Table 2 shows a comparison of total Stow expenditures for FY12 and FY13.

Though the Center School Project (whose debt service is part of Other/special items) was largely completed in FY13, the second large bond associated with the project has not yet bonded and only about \$150,000 of this year's increase can be attributed to Center, as the Town will largely just pay interest only on that amount until FY14 at a very low rate. Still, this increase in debt service was largely offset by a decrease in capital spending in FY13.

The more expensive capital items in FY13 included about \$160,000 to install air conditioning in the Hale School, \$60,000 for a brush chipper for the Highway Department and \$50,000 in town building improvements. In addition, the town approved \$40,000 for a new truck for the Highway Department, \$40,000 for a new police cruiser, \$30,000 in costs associated with replacing the damaged police and fire radio tower, about \$14,000 in cemetery equipment/improvements, \$13,000 for a new plot/plan printer for the planning board and \$12,000 to install handrails in the Hale School auditorium.

The Municipal Government portion of the budget showed a 3% increase that was largely related to higher benefit costs along with a living wage increase of 3%.

Recap items saw a 5.4% *decrease* in FY13, after showing a 7.3% increase the previous year. The recap items' largest line item is Stow's portion of county retirement, or the retirement cost of town employees. Though the retirement costs saw about a 5% increase in FY13 (not that large compared to some prior years), this was more than offset by about a \$60,000 decrease in the allowance account for abatements (which was appropriately reduced having seen significant reserves remaining from prior years).

Table 2: Town Expenditures

	FY12 % of		FY12 % of		\$ Change	% Change
	FY12 Voted	Total	FY13 Voted	Total	FY11-FY12	FY11-FY12
Municipal Govt						
General	\$ 1,000,363	4.4%	\$ 1,047,937	4.6%	\$ 47,574	4.8%
Public Safety	\$ 2,039,135	8.9%	\$ 2,083,054	9.1%	\$ 43,919	2.2%
Public Works	\$ 958,058	4.2%	\$ 1,017,384	4.4%	\$ 59,326	6.2%
Human Services	\$ 257,708	1.1%	\$ 264,715	1.2%	\$ 7,007	2.7%
Culture/Rec	\$ 280,501	1.2%	\$ 292,149	1.3%	\$ 11,648	4.2%
TownWide Expense	\$ 876,780	3.8%	\$ 871,442	3.8%	\$ (5,338)	-0.6%
Total Municipal Govt	\$ 5,412,545	23.6%	\$ 5,576,681	24.4%	\$ 164,136	3.0%
Education						
Nashoba	\$ 13,194,166	57.6%	\$ 13,726,429	60.0%	\$ 532,263	4.0%
Minuteman	\$ 746,981	3.3%	\$ 622,982	2.7%	\$ (123,999)	-16.6%
Total Education	\$13,941,147	60.9%	\$14,349,411	62.7%	\$ 408,264	2.9%
Other						
Debt Service	\$ 1,657,146	7.2%	\$ 1,854,395	8.1%	\$ 197,249	11.9%
Special Articles	\$ 393,560	1.7%	\$ 433,777	1.9%	\$ 40,218	10.2%
Capital Spending	\$ 562,834	2.5%	\$ 414,030	1.8%	\$ (148,804)	-26.4%
Recap Items	\$ 919,792	4.0%	\$ 869,665	3.8%	\$ (50,128)	-5.4%
Total Other	\$ 3,533,332	15.4%	\$ 3,571,867	15.6%	\$ 38,535	1.1%
GRAND TOTAL	\$22,887,024		\$23,497,959		\$ 610,935	2.7%

Source: Town Administrator, Budget Report, Annual Town Meeting

--- Departmental operating budgets include wages and expenses.

Town Expenditures: Education

The Nashoba Regional School District ("NRSD") is Stow's largest expense. The total NRSD expense can be divided into our assessment of \$13,726,429, which includes debt service paid by the district, and NRSD-related debt paid by the town of \$1,028,315, for a total of \$14,754,744, or over 61% of total town spending in FY13. This represents about a \$700,000, or 5%, increase over FY12.

About a quarter of the NRSD-related increase comes from the debt service related to the Center School Project. FY14 will see an additional increase for the Center School Project of approximately \$300,000. The Center School Project annual debt service payments will level out in FY14 and are estimated to be between \$1.1 Million and \$1.2 Million. Other than the Center School Project, the assessment for NRSD is largely reflective of a level services budget. Similar to the increases in the municipal budget, a large amount of this remaining increase can be attributed to negotiated salary increases and increasing employee benefit costs.

It should be noted that the overall increase in the district budget was approximately 3.5%, but that Stow saw a 4% increase in the assessment. The difference is based on formulas in the regional agreement that are driven by student enrollment.

For Minuteman Career and Technical High School (“Minuteman”), the Town’s assessment for FY13 was \$622,982. Though this was a significant decrease over the prior year, this decrease was largely reflective of enrollment decreases. The Minuteman assessment can vary significantly from year to year, as the enrollment can vary significantly and in fact it is predicted to go back up to FY12 levels in FY14 based on estimated enrollment.

As indicated for the last several years, Minuteman has a significant capital project on the horizon and, in conjunction with this project, is currently in the process at examining the regional agreement that has the formula for determining the member towns’ assessments. Minuteman will be going through the Massachusetts School Building Authority and is hoping to have a significant portion of the project reimbursed by the state (currently set at 40%). As there are a number of moving parts surrounding this project, it is not slated to impact the budget for the next several years. Nevertheless, in the interim, Minuteman is expected to incur higher than usual repair and maintenance costs. The most significant of these expenses will be necessary repairs to the school’s roof.

The school budgets have a much heavier reliance on state aid than the municipal government budget and Stow’s assessments are net of the state aid provided to the districts. Decreases in education-related state aid largely came to halt in FY12. Whether there are any increases in aid going forward remains to be seen.

Table 3: Stow’s School Assessment Budgets

	FY09	FY10	FY11	FY12	FY13	% Change
Nashoba (incl debt)	\$12,970,229	\$13,384,438	\$13,338,116	\$14,046,203	\$14,754,744	5.0%
Minuteman	\$ 963,952	\$ 750,000	\$ 609,427	\$ 746,981	\$ 622,982	-16.6%
TOTAL	\$13,934,181	\$14,134,438	\$13,947,543	\$14,793,184	\$15,377,726	4.0%

Source: Town Administrator, Budget Report, Annual Town Meeting & Treasurer, Debt Service Schedule

Town Savings

Stow’s savings remain healthy. Though as a percent of the budget savings decreased slightly in FY13, the Town did add almost \$200K in savings during the year and the amounts add up to almost 9% of the overall budget. Town savings are “rainy day” accounts that are built up during good times and drawn down in bad times. As indicated previously, town savings is a key determinant of the town credit rating and the credit rating will affect the interest rate the town would pay should it decide to borrow money for some future use. There are two major accounts that reflect the town’s savings, or stored assets: Free Cash and Stabilization Fund. Table 4 shows the status of our stored assets.

Free Cash contains unrestricted funds from operations of the previous fiscal years. It is certified by the state before the calendar year end. These funds are a necessity, not a luxury. Although the fund is available for appropriation, its primary purpose is to provide for unforeseen expenditures. Still, at various times in the past four fiscal years, including in FY13, the town has used Free Cash to fund certain capital articles.

The Stabilization Fund is designed to accumulate amounts for capital and other future spending purposes. A two-thirds vote of town meeting is required to appropriate funds to deposit into the stabilization fund. The level of the Stabilization Fund is examined closely by the bond rating agencies when determining the Town's bond rating, as it is not as easily spent as free cash. The last Annual Town Meeting voted to increase the Stabilization Fund by \$50,000 by transferring funds from Free Cash.

The Finance Committee would recommend that town savings remain in the range of 5% to 10%. This would require an additional \$350,000 in total savings amounts before we hit the top of the range.

With other possible capital projects on the horizon, this additional savings is very timely, first and foremost to help ensure the funding for these projects gets bonded at a low rate. It also helps ensure we have adequate reserves for any unanticipated significant expenses or revenue decreases in the future.

Table 4: Town Savings							
	FY 09	FY 10	FY 11	FY 12*	FY 13*	\$ Change FY12-FY13	% Change FY12-FY13
Free Cash	\$ 434,769	\$ 604,198	\$ 778,703	\$1,283,016	\$1,395,874	\$ 112,858	8.8%
Stabilization Fund	\$ 436,124	\$ 575,000	\$ 586,998	\$ 700,367	\$ 773,200	\$ 72,833	10.4%
Total	\$ 870,893	\$1,179,198	\$1,365,701	\$1,983,383	\$2,169,074	\$ 185,691	9.4%
% of Budget	4.0%	5.3%	6.3%	8.7%	8.5%	-0.1%	

Source: Town Administrator (approximate balances at start of calendar year)

Effect on Property Taxes

Based on a calculation of the typical residential property (Massachusetts Class 101 properties), the average valuation of a single-family house in Stow is about \$424,000. The effect of changes to the budget on your tax bill is shown in Table 5. The 1.4% increase corresponds to the overall budget increase in FY13, less increases in other revenue sources, such as local receipts, use of free cash for capital projects and overlay surplus funds used. Resident's tax bills may reflect an increase greater or less than 1.4% over FY12, which will largely correspond to how the value of their property changed with respect to the other properties in Stow. It has been noted in the past by the Finance Committee that Stow's tax rate is one of the highest in the state. Stow's residential tax rate of \$18.37 per \$1,000 puts the town just inside the top thirty highest rates in the state. For comparative purposes, the town's rate remains below Bolton (\$20.96), Acton (\$19.10), Maynard (\$20.05) and Lancaster (\$19.08) and slightly above Boxborough (\$17.69) and Sudbury (\$17.99). At \$16.68, Harvard had a rate significantly below Stow's. Keep in mind that home valuations can vary significantly from town to town. Of the rates shown above, Bolton, Boxborough and Harvard would most closely resemble Stow valuations.

Table 5: Effect on Property Taxes (based on MA Class 101 properties)						
	FY 09	FY 10	FY 11	FY 12	FY 13	% Chnge FY12-FY13
Tax Rate (per \$1,000)	\$ 15.28	\$ 16.58	\$ 17.05	\$ 17.90	\$ 18.37	2.6%
Avg Single Family Valuation	\$463,581	\$445,062	\$428,744	\$429,172	\$423,931	-1.2%
Avg Single Family Tax Bill	\$ 7,084	\$ 7,379	\$ 7,310	\$ 7,682	\$ 7,788	1.4%

Source: Calculation based on 2013 Board of Assessor assessed values and tax rate using Massachusetts Class 101 properties.

Conclusion

There are a number of factors that indicate that the town remains in great fiscal shape. There has been no override in recent years, our reserves are almost 9% of the overall budget, the town's property taxes remain well within the levy capacity, our debt rating remains strong and our tax rate, relative to the rest of the state, has improved slightly in FY13.

However, there are a number of capital projects, both within the town and the school districts that may be needed in the near future. At the same time, the town will not see a significant decrease in existing debt service until fiscal year 2020. Though the cost of borrowing is currently cheap, there have been anecdotal indications that construction inflation is beginning to creep above 5%.

Further, taxpayers should see about a 1.25% increase in taxes in FY14 for the remaining Center School debt alone.

Though Stow does not have many businesses to help absorb the burden of capital projects and increasing education costs, it does have a significant senior population. Though the average tax bill only had a minor increase this year, it was approximately 5% in FY12 (averaging out to about 3.5% over the last two years). Though this may not seem like a lot to some, these increases can be a heavy burden for Stow's senior population, which tends to rely on a fixed income and typically sees property taxes as one of their largest expense items.

It is our opinion that this is a fair and accurate picture of the Town's financial state. Whether you are pleased or displeased, we remind you that Town Meeting directly controls the rate of growth of town expenses. We encourage your participation.

Respectfully submitted,

Peter McManus, Chair
Rick Rollins, Vice Chair
Ann Deluty

Christopher Sarno
Bruce Walbridge
Richard Eckel, Associate Member